DAON 75

Daon Development Corporation

Annual Report 1975

5 Year Financial Highlights	1975	1974	1973	1972	1971
Total Revenue (in $000)	102,939	64,631	43,616	29,912	26,116
Net Income (in $000)	6,694	3,096	1,666	984	856
Earnings per share (in $)	4.44*	2.21	1.32	0.90	0.86
Cash Flow per share (in $)	8.57*	5.06	2.87	1.87	1.82
Total Assets (in $000)	209,963	184,643	85,425	53,051	35,852
Shareholders' Equity (in $000)	19,319	12,984	8,476	6,545	4,037
Number of shares outstanding	1,520,620*	1,499,190	1,277,380	1,204,360	1,000,200
Number of shareholders at year end	1,174	1,213	1,128	1,097	718

After November, 1975 capital reorganization:

1975 Earnings per new Common Share	$2.62
1975 Cash Flow per new Common Share	$5.25
Number of new Common Shares outstanding	2,364,723

Alberta Activity

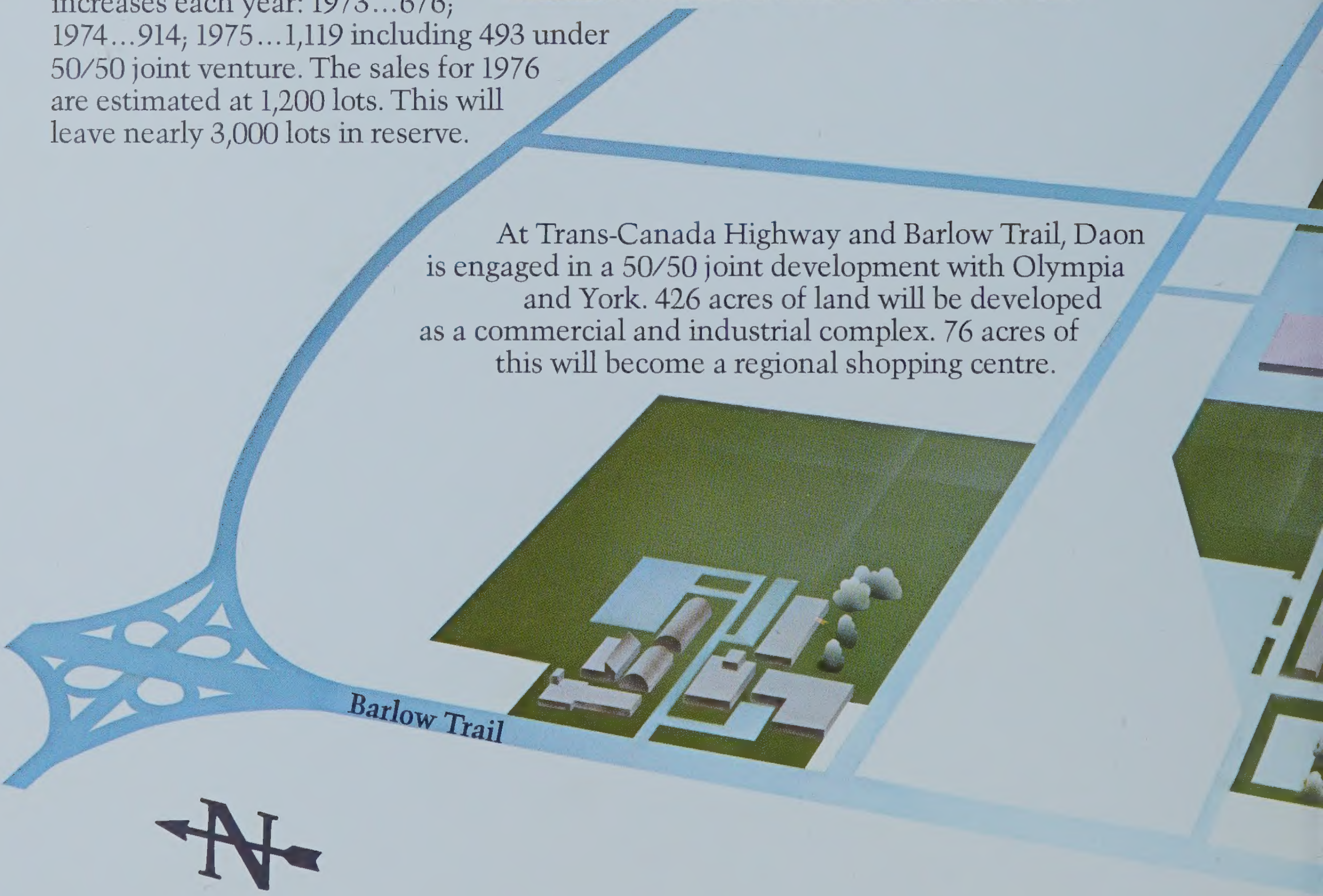
Daon now has 37% of its assets in Alberta. The company is engaged in land assembly, commercial buildings, industrial parks, shopping centres and a growing condominium market. Daon's activities in North East Calgary and Norwester Industrial Estates, Edmonton, both depicted here, are indicative of the opportunities that exist in this province.

In Calgary, along an important stretch of the Trans-Canada Highway, Daon is engaged in inter-related projects that will provide residential, commercial and industrial facilities as part of an overall plan.

➔ **The Properties** is a four square-mile residential development which was started by Daon in 1973. By 1980 it will house some 50,000 people.

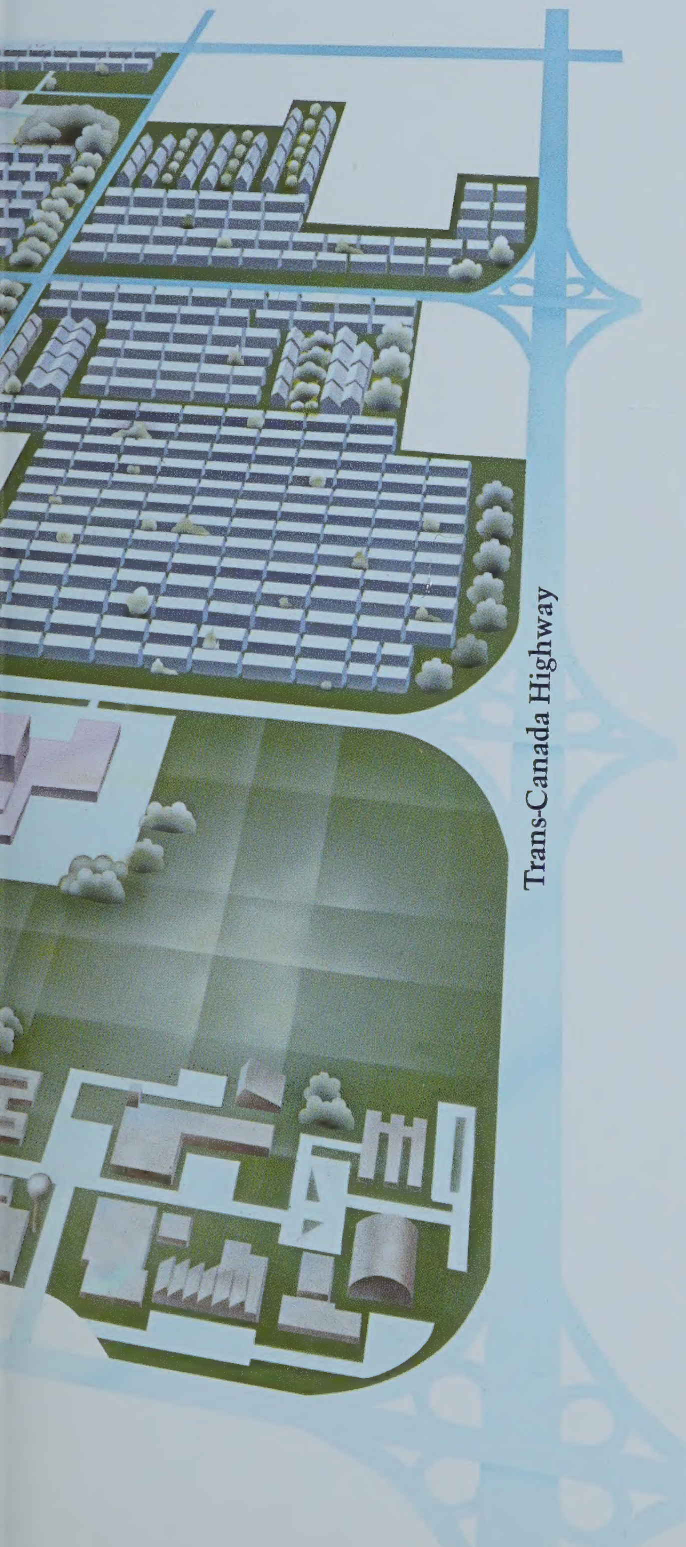
The demand for Daon lots increases each year: 1973…676; 1974…914; 1975…1,119 including 493 under 50/50 joint venture. The sales for 1976 are estimated at 1,200 lots. This will leave nearly 3,000 lots in reserve.

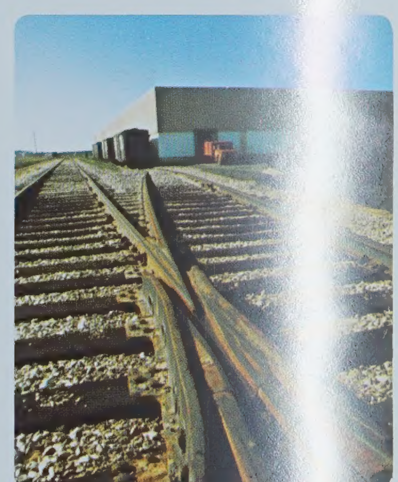
At Trans-Canada Highway and Barlow Trail, Daon is engaged in a 50/50 joint development with Olympia and York. 426 acres of land will be developed as a commercial and industrial complex. 76 acres of this will become a regional shopping centre.



Preparatory wor
plans provide fo
is also an 11.2 ac
A shopping cen

already started on Village Square; th and recreational facilities. There for commercial development. cheduled for completion in 1978.

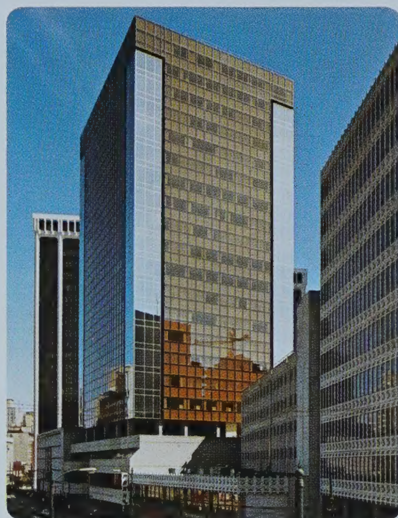




By the end of 1976, most of the 170 acres which comprise **Norwester Industrial Estates** will have been developed. The site is within the city of Edmonton, six miles from downtown and two blocks from the Yellowhead Highway. C.N. rail spurs are laid to all loading bays. The marketing plan offers the choice of renting, buying or leasing back. Adjacent to Norwester, Daon owns 518 acres of land intended for future industrial use.

City Centres

In 1970 Daon began assembling sites and developing buildings in downtown Vancouver. Since then it has also developed major office buildings in Calgary and Edmonton.



100% leased, Vancouver. The Daon Building, 1050 West Pender Street. 247,000 square feet. Completed 1974.

100% leased, Calgary. The Daon Building, 444-5th Avenue S.W. 170,000 square feet. Completed 1973.

100% leased, Vancouver. 1166 West Pender Street. 150,000 square feet. Completed December, 1975. Leased to Federal Government for five-year term.

100% leased, Edmonton. The Financial Building, 10621-100th Avenue. 130,000 square feet. The new wing, 64,000 square feet, was completed in 1975.

Jenner Site. 107th Street, Edmonton. 320,000 square feet. Scheduled for completion 1977.

75% leased, Calgary. Alberta Place, 1520-4th Street S.W. 107,000 square feet. Completed 1975.

DAON

Table of Contents

President's Report

1975 was an outstanding year for Daon with record sales and record earnings. Capital and liquidity were greatly strengthened and the company is in an excellent position to sustain its growth in 1976. The right assets in the right places at the right time, together with a capable, highly motivated management team—these were the ingredients that made 1975 the best year in the company's history.

Total revenue was up by 59% and net income up by 116% from the previous year.

Shareholders' equity through retention of earnings and paid in capital increased from $12,984,000 to $19,319,000. However, in order to place a full value on the company's worth, it is necessary to consider market values of assets rather than book values. In Management's opinion, the value of the company's consolidated property holdings in today's market exceeds book value by some $30 to $35 million ($21 million in 1974). On this basis the value of the shareholders' equity at October 31, 1975, after deducting full income taxes on the excess, would be $34 million to $37 million. This gives a break-up value of $13 to $14 per new Common Share following the capital reorganization referred to on page 3.

The company's dramatic growth in 1975 was achieved with no increase in staff. There are now 213 permanent staff, exactly the same number as a year ago. The ability to support future growth has also been assured by a major upgrading of management information systems. The company now has in operation one of the most sophisticated data processing programs available to our industry.

Business Strategy

The company continues to focus on three activities—land development...a source of cash; condominiums for sale...a source of cash; commercial and residential income properties for retention...a place to invest our cash and provide shelter from current income taxes. We pursue these activities in the Provinces of Alberta and British Columbia, concentrating on the four major metropolitan areas of Edmonton, Calgary, Vancouver and Victoria. In addition to this western Canadian market we intend to enter at least one metropolitan market on the West Coast of the United States. We expect to make our first major property acquisition in the United States early in 1976.

Business Outlook

In British Columbia the main thrust of our activity will be in the residential sector with the emphasis on modest townhouses and apartments for rent and for sale.

The market has been unable to absorb the supply of medium priced condominiums as quickly as they were completed and this situation will continue well into 1976. We have experienced this situation in the past as the market moves through a cycle of undersupply to overbuild and our strategy is to rent a portion of our condominium inventory until market conditions improve.

Regarding building lots in the lower mainland, the demand continues strong in the $20,000 to $25,000 price range and the company expects to sell at least 300 lots in 1976.

New office and warehouse space are facing a weak market in the Vancouver area which will continue throughout 1976; Daon does not have any office or warehouse space under development in this area, nor do we have any vacant unrented space.

Alberta presents a decidedly more optimistic picture as its economy continues to outperform that of any other province in Canada. Demand for residential building lots exceeds supply in Calgary and Edmonton; strong demand

exists for low and medium priced condominiums in each city and for industrial sites and industrial warehousing in Edmonton. There is a good demand for office space in Edmonton. Daon will be active in each of these markets and in addition we hope to commence development in 1976 of the previously announced Regional Shopping Centre in North East Calgary.

The company currently owns 407,000 sq. ft. of office space in Calgary and Edmonton, fully rented except for 26,000 sq. ft. in Calgary. A further 320,000 sq. ft. is under way in Edmonton for completion in early 1977. The company also owns 260,000 sq. ft. of warehouse space in Norwester Industrial Estates of which 83,000 sq. ft. is unrented. A further 270,000 sq. ft. will be brought to market in 1976.

We expect to develop and sell a minimum of 1,200 residential lots in Alberta in 1976—mostly in "The Properties", which continues to be Calgary's most popular and fastest selling residential community.

The company will be bringing four major condominium projects to market in 1976—two in Edmonton consisting of 166 deluxe apartments and two in Calgary consisting of 198 low rise apartments and townhouses. In addition, construction is under way on 144 rental apartments in Calgary.

Government

On December 11, 1975, the people of British Columbia elected a new, free enterprise government. We expect this new government will live up to its campaign promises of less government involvement in the private sector and more attention to incentives in the resource sector of the British Columbia economy. We expect this government to continue with many of the policies of the previous government in terms of assistance for British Columbia residents who lack the means to provide their own shelter. A "better deal" in terms of sharing provincial revenue with our cities and municipalities was another campaign promise. The election of this new government should prove to be a very positive event for the British Columbia business community.

Financial

The consolidated financial statements and notes present a clear picture of the company's position in conventional form. It might, however, be useful to present an alternative and simplified view of how the company's financial resources were employed at October 31, 1975.

The effective "permanent" capital employed in the business at that date (not including mortgage debt attached to specific properties) was $46,134,000 consisting of:

Paid in share capital	$ 4,952,000
Retained earnings	14,367,000
Deferred income taxes	15,241,000
Debentures payable	11,574,000
	$46,134,000

The capital was employed as follows:

Equity in housing units for sale	$19,518,000
Equity in land	15,789,000
Equity in income properties	12,127,000
	47,434,000
Less—Short-term debt net of other assets	1,300,000
	$46,134,000

Capital Reorganization

On November 6, 1975, the shareholders approved a capital reorganization for the company and the shares of Daon were split two for one. Shareholders received two new Common Shares for each original share held and then could elect to exchange up to one half of these new

Common Shares for an equivalent number of new 75¢ Class A Shares. On November 21, 1975, shareholders made their election and, as a result, the share capital outstanding after that date was:

676,517 75¢ Class A Shares
2,364,723 new Common Shares

The 75¢ Class A Shares are redeemable at the company's option at $6.50 per share on or before October 31, 1977, at $6.25 on or before October 31, 1978 and at $6.00 thereafter.

The 75¢ Class A Shares are non-voting, are preferred as to dividend and rank equally with the new Common Shares as to capital to a limit of $6.00 per Class A Share.

The company does not propose to pay dividends on the new Common Shares.

The gross annual dividend payable on the 75¢ Class A Shares is $507,000 as compared to the previous gross annual dividend (32¢ per share) of $483,000 that was paid on the old "pre-split" common shares, so it can be readily seen that this capital reorganization does not have a material effect on the company's cash flow.

1976

A new government in British Columbia, Federal price and wage guidelines, new government programs to stimulate housing both Federally and Provincially, a Presidential election in the United States, uncertainty as to recovery of world markets for natural resources, new markets in the United States for Daon to study, and enter—this is the climate and the challenge for 1976.

1976 will be a good year for Daon, and we are preparing for the challenging times in 1977 and beyond.

On Behalf of the Board.
J. W. Poole, President.

December 15, 1975.

AUDITORS' REPORT

To the Shareholders,
Daon Development Corporation:

We have examined the consolidated balance sheet of DAON DEVELOPMENT CORPORATION (a British Columbia company) AND SUBSIDIARIES as of October 31, 1975, and the related consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of a consolidated subsidiary, which statements were examined by other auditors whose report thereon has been furnished to us and our opinion, insofar as it relates to the amounts included for this subsidiary, is based upon their report. The assets and revenues of this subsidiary constitute 4% and 16% respectively of the consolidated totals. We have previously examined and reported on the consolidated financial statements for the preceding year.

In our opinion, based upon our examination and the report of other auditors referred to above, the accompanying consolidated financial statements present fairly the financial position of Daon Development Corporation and Subsidiaries as of October 31, 1975, and the results of their operations and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.
Chartered Accountants

Vancouver, B.C.
December 15, 1975.

Daon Development Corporation
and Subsidiaries
Consolidated Balance Sheet
October 31, 1975
(with comparative figures for 1974)

	1975	1974
ASSETS		
CASH	$ 3,600,000	$ 347,000
ACCOUNTS RECEIVABLE *(Note 2)*	10,686,000	8,357,000
MORTGAGES AND AGREEMENTS RECEIVABLE *(Note 3)*	11,313,000	4,241,000
HOUSING UNITS *(Note 4)*	63,236,000	34,970,000
LAND *(Note 5)*	43,871,000	51,687,000
INVESTMENTS *(Note 6)*	3,553,000	1,629,000
INCOME PROPERTIES *(Note 7)*	72,604,000	80,890,000
OTHER ASSETS *(Note 8)*	1,100,000	2,522,000
	$209,963,000	$184,643,000

On behalf of the Board:

WILLIAM H. LEVINE, *Director*

JOHN W. POOLE, *Director*

The accompanying notes to consolidated financial statements are an integral part of this statement.

	1975	1974
LIABILITIES		
BANK LOANS *(Note 9)*	$ —	$ 3,083,000
ACCOUNTS PAYABLE *(Note 10)*	18,951,000	17,488,000
MORTGAGES AND AGREEMENTS PAYABLE *(Note 11)*	144,878,000	131,163,000
DEBENTURES PAYABLE *(Note 12)*	11,574,000	11,230,000
DEFERRED INCOME TAXES	15,241,000	8,695,000
	190,644,000	171,659,000
CONTINGENT LIABILITIES AND COMMITMENTS *(Note 13)*		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK *(Note 14)*	4,952,000	4,828,000
RETAINED EARNINGS	14,367,000	8,156,000
	19,319,000	12,984,000
	$209,963,000	$184,643,000

Daon Development Corporation and Subsidiaries
Consolidated Statement of Income
for the year ended October 31, 1975
(with comparative figures for 1974)

	1975	1974
REVENUE:		
Real estate sales *(Note 15)*	$ 91,648,000	$ 58,970,000
Rental	10,073,000	3,817,000
Other	1,218,000	1,844,000
Total revenue	102,939,000	64,631,000
EXPENSES:		
Cost of real estate sales *(Note 15)*	74,665,000	49,295,000
Rental operating costs	4,155,000	2,257,000
General and administrative	2,173,000	2,291,000
Interest *(Note 16)*	6,851,000	2,761,000
Depreciation and amortization *(Note 17)*	488,000	294,000
Other	501,000	1,063,000
Total expenses	88,833,000	57,961,000
INCOME BEFORE INCOME TAXES	14,106,000	6,670,000
PROVISION FOR INCOME TAXES	7,412,000	3,574,000
NET INCOME	$ 6,694,000	$ 3,096,000
EARNINGS PER SHARE *(Note 18)*:		
After capital reorganization *(Note 14)*—		
Basic	$2.62	
Fully diluted	$2.52	
Before capital reorganization *(Note 14)*—		
Basic	$4.44	$2.21
Fully diluted	$4.31	$2.01

Consolidated Statement of Retained Earnings
for the year ended October 31, 1975
(with comparative figures for 1974)

	1975	1974
BALANCE, BEGINNING OF YEAR	$ 8,156,000	$ 5,345,000
ADD—Net income	6,694,000	3,096,000
	14,850,000	8,441,000
DEDUCT—Cash dividends, 32¢ per share (1974—20¢ per share)	483,000	285,000
BALANCE, END OF YEAR	$ 14,367,000	$ 8,156,000

The accompanying notes to consolidated financial statements are an integral part of this statement.

Daon Development Corporation and Subsidiaries

Consolidated Statement of Changes in Financial Position

for the year ended October 31, 1975

(with comparative figures for 1974)

DAON

	1975	1974
CASH WAS PROVIDED FROM:		
Operations—		
Net income	$ 6,694,000	$ 3,096,000
Add—Expenses not requiring an outlay of cash—		
Deferred income taxes	6,546,000	3,574,000
Depreciation	481,000	278,000
Amortization of deferred charges	34,000	153,000
	13,755,000	7,101,000
Deduct—Equity in earnings of joint ventures and affiliate	834,000	—
Cash flow from operations	12,921,000	7,101,000
Recovery of real estate costs through sales	72,981,000	49,295,000
Mortgages and agreements payable	13,715,000	66,861,000
Increase in accounts payable	1,463,000	2,862,000
Decrease (increase) in other assets	1,269,000	(1,737,000)
Proceeds of Series D (1974—Series C) debenture issue *(Note 12)*	704,000	9,575,000
Common stock issued (less conversions from debentures of $1,423,000 in 1974) *(Note 14)*	124,000	274,000
	103,177,000	134,231,000
CASH WAS APPLIED TO:		
Housing units	56,136,000	38,250,000
Land	15,543,000	41,928,000
Income properties	13,828,000	59,798,000
Increase (decrease) in mortgages and agreements receivable	7,072,000	(2,333,000)
Decrease (increase) in bank loans	3,083,000	(824,000)
Increase (decrease) in accounts receivable	2,329,000	(3,264,000)
Increase (decrease) in investments	1,090,000	(6,142,000)
Dividends	483,000	285,000
Purchase and redemption of debentures *(Note 12)*	360,000	2,853,000
Purchase of shares of Paragon Properties Limited	—	3,675,000
	99,924,000	134,226,000
INCREASE IN CASH	$ 3,253,000	$ 5,000
CASH FLOW PER SHARE *(Note 18)*:		
After capital reorganization *(Note 14)*	$5.25	
Before capital reorganization *(Note 14)*	$8.57	$5.06

The accompanying notes to consolidated financial statements are an integral part of this statement.

Daon Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements
October 31, 1975

1 Accounting policies

(a) General

The Company is a member of the Canadian Institute of Public Real Estate Companies. The Company's accounting policies and its standards of financial disclosure are substantially in accordance with the recommendations of that Institute.

(b) Consolidation

The consolidated financial statements include:

(i) The accounts of the Company and its wholly-owned subsidiaries.

(ii) The Company's proportionate share of revenue and expenses of certain joint ventures, with the investment therein being carried in the consolidated balance sheet on the equity basis.

Control of Paragon Properties Limited was acquired on February 1, 1974, and the 1974 consolidated statement of income includes earnings of this wholly-owned subsidiary from that date only.

(c) Income Recognition

The Company recognizes income as follows:

(i) Sales of Land
When the Company has fulfilled all material conditions and has received a down payment that is appropriate in the circumstances having regard to the financial resources of the purchaser.

(ii) Sales of Housing Units
When the sale has been completed and the purchaser is entitled to occupancy.

(iii) Sales of Income Properties
When the building is 85% complete, except for tenant improvements, and a down payment has been received that is appropriate in the circumstances having regard to the financial resources of the purchaser.

(iv) Rental Revenue
After 70% occupancy is attained, subject to a reasonable maximum time period which depends on the size of the project. Net rental losses prior to this time are capitalized as part of the total cost of the project.

The Company includes in cost of real estate sales a provision for warranties to purchasers.

(d) Capitalization of Costs

The Company capitalizes direct carrying costs, including interest, property taxes and related development costs on housing units, land and income properties under development. In addition, the Company allocates interest to these assets on that portion of total costs financed by general corporate borrowings.

The Company also allocates to specific developments, the direct and indirect costs of time spent by senior management on such developments.

(e) Depreciation and Amortization

The Company uses the sinking fund method in recording depreciation on income producing buildings. Depreciation is charged in annual amounts, increasing at the rate of 5% per annum, which will result in the cost of the buildings being fully depreciated over their estimated useful lives of between 40 and 50 years.

Deferred charges relating to outstanding debentures are amortized on a straight-line basis over the full term to maturity.

2. Accounts receivable

Accounts receivable consist of amounts due from:	1975	1974
Sales of housing units and land	$ 8,310,000	$ 6,184,000
Loans to directors and officers—		
Under stock purchase program *(Note 14)*	418,000	593,000
Other	204,000	—
Miscellaneous	1,754,000	1,580,000
	$10,686,000	$ 8,357,000

A major portion of the above amounts is due in the year ending October 31, 1976.

3. Mortgages and agreements receivable

The mortgages and agreements for sale receivable yield interest at a weighted average rate of 10.0% per annum. Principal payments are due on these agreements as follows:

Year ending—	
October 31, 1976	$ 3,212,000
October 31, 1977	3,114,000
October 31, 1978	1,415,000
October 31, 1979	1,243,000
October 31, 1980	1,804,000
October 31, 1981 and subsequent	525,000
	$11,313,000

4. Housing units

Housing units, including condominiums, are recorded at the lower of cost and net realizable value and consist of the following:

	1975		1974	
	Units	Amount	Units	Amount
Finished units	887	$34,372,000	418	$11,998,000
Units under development	1,234	23,758,000	1,418	18,270,000
Land for future housing development	—	5,106,000	—	4,702,000
	2,121	$63,236,000	1,836	$34,970,000

At October 31, 1975, the Company held deposits from purchasers of 309 finished units costing $9,818,000 on which sales were due for completion subsequent to that date. By December 15, 1975, deposits had been received from purchasers of an additional 142 finished units costing $4,881,000.

At October 31, 1975, 197 finished units costing $8,743,000 had been offered for rental by the Company for periods of up to one year. By December 15, 1975, 116 of these units costing $5,134,000 had been rented. The rental income and operating expenses (including interest but not including depreciation), relating to housing units that have been rented are reflected in the consolidated statement of income.

Of the units under development at October 31, 1975, 182 units costing $3,571,000 were committed for future sale to a Crown Corporation of the Province of British Columbia.

5. Land

This category includes land currently under development for resale as building lots and the Company's land bank which is held for future development. Other land which forms part of the Company's building projects is included within the cost of housing units and income properties.

Land is recorded at the lower of cost and net realizable value and consists of the following:

	1975	1974
Purchase price	$30,719,000	$42,978,000
Development costs	7,549,000	4,207,000
Carrying costs	5,353,000	3,805,000
Options and deposits	250,000	697,000
	$43,871,000	$51,687,000
Acreage (including 344 acres under option in 1975 and 3,070 acres in 1974)	4,125	8,969
Carrying costs consist of—		
Balance, beginning of year	$ 3,805,000	$ 1,222,000
Acquired with purchase of Paragon Properties Limited	—	444,000
Capitalized during the year	4,018,000	2,838,000
	7,823,000	4,504,000
Transferred to cost of sales and other assets	2,470,000	699,000
Balance, end of year	$ 5,353,000	$ 3,805,000

6. Investments

Investments consist of the following:	1975	1974
Investments in and advances to unincorporated joint ventures and affiliates, on equity basis	$ 3,553,000	$ 1,629,000

7. Income properties

These assets, which include related land, are recorded at cost, less accumulated depreciation, and consist of the following:

	1975	1974
Income producing properties, less accumulated depreciation of $553,000 (1974—$275,000)	$61,918,000	$52,831,000
Income properties under development	10,686,000	28,059,000
	$72,604,000	$80,890,000

8. Other assets

Other assets consist of:	1975	1974
Equipment, at cost less accumulated depreciation of $353,000 (1974—$261,000)	$ 400,000	$ 468,000
Deferred charges, less accumulated amortization of $68,000 (1974—$33,000)	514,000	549,000
Inventory of construction materials, at the lower of cost and net realizable value	186,000	1,505,000
	$ 1,100,000	$ 2,522,000

Deferred charges include $503,000 (1974—$531,000) relating to unamortized discount on, and costs of issue of, Series C debentures *(Note 12)*.

9. Bank loans

The Company's operating line of credit is secured by a general assignment of receivables, assignments of specific agreements for sale receivable, a floating charge on the assets of the Company and a fixed charge on a specific property.

10. Accounts payable

Accounts payable consist of the following:	1975	1974
Trade payables and accrued liabilities	$10,998,000	$ 9,197,000
Contractors' holdbacks payable	3,162,000	3,942,000
Income taxes payable	866,000	—
Deferred income and deposits	1,579,000	876,000
Costs to complete or service properties sold	2,346,000	3,473,000
	$18,951,000	$17,488,000

A substantial portion of total accounts payable relates to current expenditures on housing units, land and income properties under development. The Company holds mortgage commitments to provide substantially all the funds required for the settlement of such accounts.

11. Mortgages and agreements payable

Mortgages and agreements for sale payable are secured by the following assets:

	1975			1974
	Interim Financing	Long-Term Debt	Total	Total
Housing units	$41,154,000	$ 2,564,000	$ 43,718,000	$ 23,299,000
Land	10,922,000	17,160,000	28,082,000	41,135,000
Income producing properties	3,653,000	47,842,000	51,495,000	41,470,000
Income properties under development	3,282,000	5,700,000	8,982,000	19,100,000
Other	2,296,000	10,305,000	12,601,000	6,159,000
	$61,307,000	$83,571,000	$144,878,000	$131,163,000

The long-term debt bears interest at a weighted average rate of 9.7% per annum, with principal repayments due as follows:

Year ending—October 31, 1976	$ 9,530,000
October 31, 1977	6,938,000
October 31, 1978	2,889,000
October 31, 1979	4,577,000
October 31, 1980	3,692,000
October 31, 1981 to 2009	55,945,000
	$83,571,000

A major portion of the interim financing is expected to be discharged or replaced by long-term debt as follows:

(a) To be discharged at time of sale of property (the Company holds purchase commitments that will result in the discharge of $14,639,000 of this amount)	$21,392,000
(b) To be assumed by purchasers of housing units (the Company having arranged commitments from lenders to provide long-term mortgage funds for qualified purchasers)	28,181,000
(c) To be discharged from proceeds of current accounts receivable	2,296,000
(d) To be replaced with long-term debt for which the Company holds commitments from institutional lenders	1,984,000
	$53,853,000

12. Debentures payable

Debentures payable consist of:	Daon Series A	Daon Series C	Daon Series D	Paragon Series A	Total
Balance, October 31, 1973	$ 4,200,000	$ —	$ —	$ —	$ 4,200,000
Debentures issued during year	—	10,000,000	—	—	10,000,000
Acquired with purchase of Paragon Properties Limited	—	—	—	1,365,000	1,365,000
Debentures purchased and redeemed during year	(2,718,000)	(45,000)	—	(90,000)	(2,853,000)
Debentures converted into common shares *(Note 14)*	(1,482,000)	—	—	—	(1,482,000)
Balance, October 31, 1974	—	9,955,000	—	1,275,000	11,230,000
Debentures issued during year	—	—	704,000	—	704,000
Debentures purchased and redeemed during year	—	(255,000)	—	(105,000)	(360,000)
Balance, October 31, 1975	$ NIL	$ 9,700,000	$ 704,000	$ 1,170,000	$11,574,000

Daon Series A—

During 1974, debentures totalling $1,482,000 were converted into 177,840 common shares and the remainder were redeemed for cash.

Daon Series C—

In 1974, the Company issued $10,000,000, 9-3/4% sinking fund debentures, Series C, to mature April 15, 1994, retractable at the holders' option on April 15, 1984. The net cash received (after discounts) was $9,575,000.

The debentures are redeemable for other than sinking fund purposes at the Company's option in whole or in part at any time after April 15, 1984, at an initial price of 104.5% of principal, reducing by 0.5% of principal each year after April 15, 1984.

The debentures are secured by a floating charge on the assets of the Company. The Company is required to establish a sinking fund in such amounts as shall be sufficient to retire on April 15 in each of the following years the principal amounts of debentures set out below:

1976 and 1977	$300,000 per annum
1978 to 1980	$400,000 per annum
1981 to 1984	$500,000 per annum
1985 to 1993	7% of the Series C debentures outstanding on April 16, 1984.

The Company is permitted to purchase debentures on the open market for cancellation.

Under the terms of the Trust Indenture securing the Series C debentures, the Company may not pay dividends if, after paying such dividends, the shareholders' equity as defined therein would be reduced below prescribed levels. It is management's opinion that this restriction will not affect the Company's dividend policy.

Daon Series D—

On February 1, 1975, the Company issued $704,000, 9% debentures, Series D, as partial consideration for the 1974 purchase of Paragon Properties Limited. The debentures mature on February 1, 1977 but are redeemable at the Company's option at quarterly intervals prior to that date at discounts of up to 10%.

Paragon Series A—

The 8% Series A debentures of Paragon Properties Limited mature on February 15, 1979, and are redeemable otherwise than out of sinking fund monies at Paragon's option at 102% of principal on or before February 15, 1977, and at 100% of principal thereafter. The debentures are secured by a floating charge on Paragon's assets.

Paragon is required to establish a sinking fund in such amounts as shall be sufficient to retire, on February 15 in each of the following years, the principal amounts of the Series A debentures set out below:

1976	$210,000
1977	$225,000
1978	$245,000

Paragon is permitted to purchase debentures on the open market for cancellation.

13. Contingent liabilities and commitments

The Company is contingently liable for the total obligations of certain joint ventures amounting to $13,286,000. However, in each case, the total assets of the joint ventures are available and adequate to satisfy such obligations.

Paragon Properties Limited has guaranteed certain payments on two first mortgages payable by others in the aggregate amount of $3,320,000. In the event that Paragon is required to honour these guarantees, it has a right to obtain an assignment of the underlying securities held by the mortgagees.

The Company has entered into lease agreements for terms of up to 66 years. The annual rentals amount to $587,000 until 1976, when the first of these leases, with annual rentals of $418,000, is due to terminate.

The Company has no unfunded pension liabilities.

14. Capital stock

Authorized—3,000,000 shares without par value.

Changes in capital stock outstanding were:

	1975		1974	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	1,499,190	$ 4,828,000	1,277,380	$ 3,131,000
Stock issued during the year—				
Under employee stock purchase program	2,700	22,000	30,000	203,000
On exercise of employee stock options	18,730	102,000	13,970	71,000
On conversion of $1,482,000 Series A debentures payable *(Note 12)*	—	—	177,840	1,423,000
Balance, end of year	1,520,620	$ 4,952,000	1,499,190	$ 4,828,000

Stock issued under the employee stock purchase program was issued at the last sale price of the Company's stock on the Toronto Stock Exchange at the date of issue. Interest-free funds for the stock purchases were loaned to the directors and officers concerned by D.D.L. Employee Investments Ltd., a wholly-owned subsidiary. The loans are secured by the stock issued, which is assigned to and held by an appointed trustee, and are due at various dates from 1982 to 1985 *(Note 2)*.

The Company has a stock option plan under which options have been granted to certain directors, officers and employees of the Company at prevailing market prices of between $5.75 and $7.875 per share. At October 31, 1975, options to purchase 51,120 shares were outstanding, of which 2,000 were issued during the current year. The options can be exercised on various dates up to and including January 15, 1980. If all options are exercised before they expire, the Company will receive $329,000.

On November 21, 1975, the Company completed a reorganization of its capital stock under which the authorized capital was increased to 12,000,000 shares divided into 10,000,000 new Common Shares and 2,000,000 75¢ Class A Shares, each without par value. As a result of elections made by shareholders pursuant to an arrangement approved at an extraordinary meeting of shareholders held on November 6, 1975, the 1,520,620 shares outstanding on October 31, 1975 were converted into 2,364,723 new Common Shares and 676,517 75¢ Class A Shares.

Each 75¢ Class A Share is entitled to annual preferential cumulative dividends of 75¢ and is redeemable at the Company's option as follows:

(i) at $6.50 on or before October 31, 1977;
(ii) at $6.25 thereafter until October 31, 1978;
(iii) at $6.00 thereafter.

These shares are redeemable at the holders' option at $6.00 per share on October 31, 1985. The Company is also entitled to purchase in the open market for cancellation all, or any part of, these shares at prices not exceeding the aforementioned redemption prices.

The Company is required, through the operation of a cumulative sinking fund, to call for redemption each year 5% of the largest number of 75¢ Class A Shares at any time outstanding at a price of $6.00 per share plus accrued and unpaid dividends.

15. Real estate sales

Real estate sales and related costs are composed of the following:

	1975	1974
Sales—		
Housing units	$32,800,000	$24,706,000
Land	35,729,000	19,101,000
Income properties	23,119,000	15,163,000
	$91,648,000	$58,970,000
Cost of sales—		
Housing units	$27,870,000	$20,070,000
Land	25,043,000	15,048,000
Income properties	21,752,000	14,177,000
	$74,665,000	$49,295,000

16. Interest expense

Interest expense consists of the following:	1975	1974
Interest on long-term debt (including amortization of debenture discounts and other financing expenses)	$ 6,549,000	$ 2,520,000
Bank and other interest	998,000	794,000
Premium (discount) on redemption of debentures	(27,000)	123,000
	7,520,000	3,437,000
Less—Portion allocated to housing units, land and income properties under development	669,000	676,000
	$ 6,851,000	$ 2,761,000

17. Depreciation and amortization

This charge relates to the following:	1975	1974
Income producing properties	$ 363,000	$ 117,000
Other	125,000	177,000
	$ 488,000	$ 294,000

18. Earnings and cash flow per share

Earnings and cash flow per share have been calculated on the weighted average number of shares outstanding during the year. Cash flow comprises net income adjusted for items not involving an outlay of cash.

The fully diluted earnings per share have been calculated on income that would have been reported had all outstanding stock options been exercised.

Earnings and cash flow per new Common Share issued pursuant to the Company's capital stock reorganization completed on November 21, 1975 *(Note 14)* have been calculated as though the actual number of new Common Shares outstanding on completion of the capital reorganization had been outstanding for the whole of the year ended October 31, 1975, and after deducting dividends of 75¢ on each 75¢ Class A Share outstanding immediately following the capital reorganization. The fully diluted earnings per new Common Share have been calculated on income that would have been reported had all outstanding stock options been exercised on the basis of two new Common Shares for each share under option.

19. Remuneration of directors and senior officers

The aggregate direct remuneration paid or payable by the Company and its subsidiaries to the directors and senior officers of the Company for the year ended October 31, 1975 amounted to $760,000.

RESIDENTIAL INCOME PROPERTIES

Alberta

AMYLORNE Calgary	Mobile home park and motel	171 units	Completed in 1969
CHATEAU ESTATES Calgary	Mobile home park	286 units	Completed in 1972
EVERGREEN Edmonton	Mobile home park	257 units	Completed in 1974; 50% interest
GREENWOOD VILLAGE Calgary	Mobile home park	314 units	Purchased in 1975; construction and rental of additional 163 units in 1975-76; 50% interest
HAYS FARM Calgary	Garden apartments	340 units	Completed in 1974; 50% interest in 228 of 340 units
THE ATHABASCAN Edmonton	High rise apartments	117 units	Purchased in 1974; sale as condominium in 1976
VILLAGE GREEN Calgary	Garden apartments	115 units	Completed in 1970; sale as condominium in 1976; 50% interest

British Columbia

CLUB MONTECITO Burnaby	High rise apartments	252 units	Completed in 1971; leasehold interest
WOODCROFT PLACE PHASE I North Vancouver	High rise apartments	507 units	Completed in 1974

COMMERCIAL INCOME PROPERTIES

Alberta

ALBERTA PLACE Calgary	Office building	10 storeys: 107,000 sq. ft.	Completed in 1975
DAON BUILDING Calgary	Office building	22 storeys: 170,000 sq. ft.	Completed in 1973
FINANCIAL BUILDING Edmonton	Office building	11 storeys: 130,000 sq. ft.	Purchased in 1974; expansion completed in 1975
JENNER SITE Edmonton	Office building	320,000 sq. ft.	Construction in 1976-77
NORWESTER INDUSTRIAL ESTATES, Edmonton	3 warehouses	260,000 sq. ft.	Completed in 1975

British Columbia

DAON BUILDING Vancouver	Office building	21 storeys: 247,000 sq. ft.	Completed in 1974
1166 WEST PENDER STREET Vancouver	Office building	15 storeys: 150,000 sq. ft.	Completed in 1975
LANGLEY MALL Langley	Shopping centre	134,000 sq. ft.	Completed in 1974
RICHMOND INDUSTRIAL PARK, Richmond	Warehouse/office complex	328,000 sq. ft.	Completed in 1975; 50% interest

HOUSING UNITS FOR SALE

Alberta

HAYS FARM PHASE IV Calgary	High rise condominiums	144 units	Construction and sale in 1976-77
HIGHLAND ESTATES Calgary	Townhouse condominiums	140 units	Completed in 1971; sales program in 1975-76
PARK TOWERS Edmonton	Luxury high rise condominiums	49 units	Purchased in 1974; sales program in 1975-76

British Columbia

DOLPHIN SQUARE Richmond	Low rise condominiums	162 units	Construction and sale in 1976-77
GRANADA Vancouver	High rise condominiums	113 units	Construction and sale in 1975-76
GREENBRIAR Surrey	Low rise condominiums	96 units	Construction and sale in 1976-77
GREENTREE VILLAGE PHASES IV & V, Burnaby	Townhouse condominiums and patio homes	138 units	Construction and sale in 1975-76
LAURELWOOD Richmond	Townhouse, medium rise and garden apartments	320 units	Completion and sale in 1975-76; Provincial Government program
LINCOLN MANOR New Westminster	Low rise condominiums	101 units	Completion and sale in 1976
OAKWOOD/WILDWOOD Coquitlam	Townhouses	40 units	Completion and sale in 1976
OCEAN TERRACE West Vancouver	Deluxe condominiums	21 units	Completion and sale in 1975-76
PACIFIC & THURLOW Vancouver	Low rise condominiums	61 units	Completion and sale in 1976
SUN MEADOWS PHASE I Surrey	Townhouses and single family houses	67 units	Construction and sale in 1976
THE CLOISTERS Vancouver	Low rise condominiums	60 units	Construction and sale in 1976; Provincial Government program
THE DIPLOMAT New Westminster	Low rise condominiums	56 units	Completion and sale in 1976
THE RIDGECREST White Rock	Low rise condominiums	60 units	Completed in 1974; sales program in 1976-77
THE STATESMAN New Westminster	High rise condominiums	88 units	Completed in 1974; sales program in 1975-76
TIMBERLEA Burnaby	High rise condominiums	381 units	Completion and sale in 1975-76
WOODCROFT PLACE PHASE II North Vancouver	High rise condominiums	325 units	Completion and sale in 1975-76

LAND

Alberta

BROADMOOR INDUSTRIAL ESTATES, Edmonton	Acquired 1972	148 acres	Future industrial development; 50% interest
CARMEN ELLIS Calgary	Acquired 1973	226 acres	Residential development in 1978
EDMONTON TRAIL Calgary	Acquired 1973	10 acres	Industrial sites; sales program in 1976
FOREST GREEN Stony Plain	Acquired 1974	100 acres	Residential development: Phase I—225 single-family lots; Phase II—140 mobile home lots; construction and sale 1975-76
KASKITAYO Edmonton	Acquired 1973	95 acres	Future residential and commercial development
NELSON LANDS Stony Plain	Acquired 1974	92 acres	Residential development 1976-77
NORTHWEST EDMONTON LAND ASSEMBLY, Edmonton	Acquired 1974	518 acres	Industrial development 1976-82
NORWESTER INDUSTRIAL ESTATES, Edmonton	Acquired 1973	97 acres	Industrial development 1976-78
THE PROPERTIES Calgary	Acquired 1971-73	811 acres 4,000 lots	Residential and related services; sales program 1976-78
TRANS CANADA HIGHWAY & BARLOW TRAIL Calgary	Acquired 1973-74	426 acres	Warehousing, commercial and regional shopping centre development 1976-83; 50% interest

British Columbia

ALDERWOOD Surrey	Acquired 1973	35 acres	Residential development 1976-77
BURRARD, DRAKE, HORNBY & PACIFIC, Vancouver	Acquired 1974	2.7 acres	Residential and commercial development, 1976-78
DEROCHE Deroche	Acquired 1975	131 acres	Recreational development 1976-80
DILWORTH MOUNTAIN Kelowna	Acquired 1973	872 acres	Residential development 1976-83
FLEETWOOD Surrey	Acquired 1973	41 acres	Residential development; 110 single family lots—construction and sale 1976
GEORGIA & BUTE Vancouver	Acquired 1974	26,000 sq. ft.	Future office building; leasehold interest
LANGLEY PHASES II & III Langley	Acquired 1972	70 acres	Residential development; 272 residential lots—construction and sale 1976
OZADA AVENUE Coquitlam	Acquired 1974	37 acres	Residential development 1976-77

Corporate Directory
Daon Development Corporation

Head Office

The Daon Building
1050 West Pender Street
Vancouver, B.C. V6E 3S8

Calgary Office

The Daon Building
1860-444 5th Avenue S.W.
Calgary, Alberta T2P 2T8

Edmonton Office

1280-10055 106th Street
Edmonton, Alberta T5J 2Y2

Auditors

Messrs. Arthur Andersen & Co.
Chartered Accountants
2300-1055 West Hastings Street
Vancouver, B.C. V6E 2J2

Transfer Agent and Registrar

National Trust Company, Limited

Trustee for Debentures

National Trust Company, Limited

Stock Exchange Listings

Vancouver Stock Exchange
Toronto Stock Exchange
Montreal Stock Exchange
Alberta Stock Exchange

Directors

William J. Corcoran, *Executive Vice-President*
McLeod Young Weir & Company, Limited, Toronto

Graham R. Dawson, *President*
Dawson Construction Limited, Vancouver

Roderick M. Hungerford, *President*
Flex-Lox Industries Ltd., Vancouver

William B. Laurie, *Executive Vice-President*
Dawson Construction Limited, Vancouver

William H. Levine, *Executive Vice-President*
Daon Development Corporation, Vancouver

George B. McKeen, *President*
McKeen & Wilson Ltd., Vancouver

Russell A. Nunn, *Senior Vice-President, Alberta*
Daon Development Corporation, Calgary

John W. Poole, *President*
Daon Development Corporation, Vancouver

Robert Thomson, *Vice-President & Director*
Yale Properties Ltd., Montreal

Officers

Graham R. Dawson, *Chairman of the Board*

John W. Poole, *President and Chief Executive Officer*

C. Stanley Allington, *Senior Vice-President, British Columbia*

Basil V. Franey, *Vice-President, Administration*

William H. Levine, *Executive Vice-President & Secretary*

Russell A. Nunn, *Senior Vice-President, Alberta*

S. John Staseson, *Vice-President, Operations, Alberta*

Kamal G. Rizkalla, *Assistant Vice-President*

Mac D. Campbell, *Treasurer*

Raymond J. Langrish, *Comptroller*

British Columbia Activity

The Statesman, New Westminster. Rented since it was completed in 1974. The 88 units are now being sold as they become available. 26 sales have been made.

Ocean Terrace, West Vancouver. 11 of the 21 suites in this deluxe block have been sold.

Laurelwood, Richmond. A turnkey project comprising 320 townhouse and medium rise units.

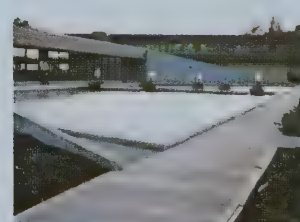
The British Columbia government will be the landlord of this low-income rental project.

LITHO'D IN CANADA
AGENCY PRESS LIMITED

n Tree Village, y. A combination of uses and patio . An additional 156 ere sold during 1975 phased development.

Langley Mall. Enclosed. Air-conditioned. 134,000 square feet. Fully leased. Completed in 1974.

Richmond Industrial Park. 50/50 joint venture. 328,000 square feet of warehousing and office space.



ningway Place, West Vancuver. 34 deluxe units, fully rented.

Woodcroft, North Vancouver. A combination rental and condominium development. When it is completed it will comprise six buildings and 1,227 units.

Fairfax, Vancouver. A highly successful experiment in "starter" units for young couples and small investors. All 60 units have been sold.

Timberlea, Burnaby. Will comprise 381 units when it is completed in 1976.

Seawind, West Vancouver. Daon's most luxurious condominium project. Prices range from $166,000 to $220,000. Completed October, 1975. 10 of the 19 suites have been sold.

DAON

Daon Development Corporation
Vancouver, Calgary, Edmonton

Daon Development Corporation and Subsidiaries Consolidated Statement of Changes in Financial Position for the six months ended April 30, 1976

(with comparative figures for 1975)
(prepared without audit)

	1976	1975
Cash Was Provided From:		
Operations—		
Net income	$ 3,611,000	$ 2,501,000
Add—Expenses not requiring an outlay of cash—		
Deferred income taxes	*1,206,000	2,775,000
Depreciation	269,000	191,000
Amortization of deferred charges	21,000	17,000
	5,107,000	5,484,000
Deduct—Equity in earnings of joint ventures	337,000	—
Cash flow from operations	4,770,000	5,484,000
Recovery of real estate costs through sales	52,043,000	36,364,000
Debentures issued	14,512,000	704,000
Increase (decrease) in bank loans	1,500,000	(554,000)
Decrease (increase) in mortgages and agreements receivable	934,000	(6,898,000)
Decrease in investments	279,000	574,000
Common stock issued	58,000	32,000
Increase (decrease) in accounts payable	3,000	(1,184,000)
	74,099,000	34,522,000
Cash Was Applied To:		
Housing units	29,182,000	26,062,000
Decrease (increase) in mortgages and agreements payable	24,722,000	(8,298,000)
Income properties	8,863,000	4,222,000
Land	7,304,000	7,278,000
Purchase and redemption of debentures	1,215,000	360,000
Increase in accounts receivable	714,000	5,346,000
Dividends	253,000	240,000
Increase (decrease) in other assets	97,000	(699,000)
	72,350,000	34,511,000
Increase In Cash	$ 1,749,000	$ 11,000
Cash Flow Per Common Share	$2.01	†$2.34

*Deferred income taxes for the six months ended April 30, 1976 have been calculated on that percentage of income for the period which equals the estimated percentage of income for the entire fiscal year not subject to current income taxes.

†Due to the November, 1975 capital reorganization, the cash flow per common share for 1975 has been restated in order to render it comparable with that for 1976.

DAON

Head Office: The Daon Building
1050 W. Pender St., Vancouver, B.C. V6E 3S8

Daon 1976 Second Quarter Report

Daon Development Corporation
Vancouver, Calgary, Edmonton,
Newport Beach

President's Message to Shareholders

I am pleased to report that the favourable growth in sales has continued and earnings for the six months ended April 30, 1976 have kept pace with sales.

	1976	1975
Revenue (in $000)	71,324	48,340
Net Income (in $000)	3,611	2,501
Earnings per Share (in $)	1.41	0.96
Cash Flow per Share (in $)	2.01	2.34

Profit Contribution

Land sales and condominium sales each contributed equally to the net income recorded during the period. It is worthy of note that Alberta operations contributed approximately 60% of the net income compared with 40% from British Columbia operations. The profit margin on sale of condominiums in the Vancouver area has shrunk as a result of the increased carrying cost of unsold units and a heavier expenditure for advertising.

Working Capital

On April 1st, the Company raised $15 million of long-term debt capital through the sale of 15 year 11½% Sinking Fund Debentures retractable on October 1, 1982. The net proceeds of this issue after underwriting discount were $14,512,500 and the funds were employed to repay higher cost short-term borrowings and add to the Company's working capital. We are currently in a very liquid position—several of our land parcels are completely free of debt, our authorized lines of bank credit are not being fully utilized and we are in an excellent position to act on investment opportunities as they arise.

Common Share Purchase

On May 19th, Paragon Properties Ltd., a wholly-owned subsidiary of DAON, purchased in a private transaction 102,960 shares of DAON for $7.00 per share. Your Directors feel that the repurchase of the Company's shares represents an excellent investment and a portion of our future earnings may be employed to repurchase additional shares from time to time. The effect of this will be to increase the earnings per share and net asset value per share of the remaining common shares.

California

DAON's entry into the mainstream of the Southern California market has been initiated with the following land purchases in the Orange and San Diego County areas:

—46 building lots in Tustin—Homes will range from 2,800 to 3,300 square feet, and will sell in the range of $100,000 and up;
—57 acre parcel in the City of Brea—Some 200 homes in the $75,000 plus range will be built;
—21 unit ocean front condominium in San Clemente—Homes will sell for upwards of $115,000;
—15 building lots in Silver Saddle Ranch Club in North San Diego County;
—800 plus homesites in the planned community of Lake San Marcos in San Diego County—Homes of 1,200 to 1,600 square feet will start in the mid-$40,000 range.

We have entered into 50/50 partnership agreements with experienced reputable local developers on these properties, and in most cases our partner will provide the construction, sales and marketing services, while DAON will provide the short-term equity capital to fund the development through to completion. The partnership vehicle will be the style of our California operation at the outset and only after we have developed a strong local management team will we undertake on-site development with our own forces.

DAON's activities in California will be directed by Mr. James D. Stout who was appointed Manager of California Operations on March 15, 1976. He will operate from DAON's California office at 255, 1400 Quail Street, Newport Beach.

Outlook

In Alberta the market is strong in all areas except the Calgary office market which appears to be oversupplied. In British Columbia, the economy is still flat, and the condominium market in Vancouver suffers from an oversupply of product. The office market continues in an oversupply situation and demand for retail and warehouse space is spotty. The recovery in the British Columbia real estate market is probably at least six months away.

During the next six months our posture in California and Alberta will be bold and aggressive, and our posture in British Columbia will be cautiously aggressive as we respond to the realities of the marketplace. On balance, the outlook for the remainder of the year is encouraging and I think the results of the second half will please you.

On Behalf of the Board,
John W. Poole,
President and Chief Executive Officer.

June 7, 1976.

Daon Development Corporation and Subsidiaries Consolidated Statement of Income for the six months ended April 30, 1976

(with comparative figures for 1975)
(prepared without audit)

	1976	1975
Revenue:		
Real estate sales	$61,770,000	$43,021,000
Rental	6,733,000	4,797,000
Other	2,821,000	522,000
Total revenue	71,324,000	48,340,000
Expenses:		
Cost of real estate sales	53,640,000	36,364,000
Rental operating costs	3,027,000	2,001,000
General and administrative	1,246,000	1,281,000
Interest	3,676,000	3,111,000
Depreciation and amortization	273,000	194,000
Other	2,428,000	113,000
Total expenses	64,290,000	43,064,000
Income Before Income Taxes	7,034,000	5,276,000
Provision For Income Taxes	3,423,000	2,775,000
Net Income	$ 3,611,000	$ 2,501,000
Earnings Per Common Share	$1.41	†$0.96

†Due to the November, 1975 capital reorganization, the earnings per common share for 1975 have been restated in order to render them comparable with those for 1976.